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KAPS

ANNUAL REPORT
1970

KAPS TRANSPORT LTD.
ANNUAL REPORT
JUNE, 1970

DIRECTORS

Reinhold Kapchinsky	Edmonton, Alberta
Gerhard Kapchinsky	Ft. St. John, B.C.
Helmut Kapchinsky	Edmonton, Alberta
Robert A. Dunn	Edmonton, Alberta
Lorne C. Leitch	Edmonton, Alberta
Frederick N. Hughes	Winnipeg, Manitoba
Richard A. N. Bonnycastle	Calgary, Alberta

OFFICERS

President	Reinhold Kapchinsky
Vice-President	Gerhard Kapchinsky
Vice-President	Helmut Kapchinsky
Vice-President	Joseph Spiker
Vice-President	Leonard Carpentier
Vice-President	Walter Horton
Vice-President	Rex W. Dales
Secretary	Marvin W. Phillips
Treasurer	Marvin W. Phillips

Registered Offices.
9520 - 51st Avenue, Edmonton, Alberta
Transfer Agent & Registrar:
Royal Trust Company, Edmonton
Vancouver, Winnipeg and Toronto
Stock Exchange:
Toronto Stock Exchange
Bank:
Bank of Montreal
Auditors
Thorne, Gunn, Helliwell & Christenson
Edmonton, Alberta

Annual Meeting:
November 2, 1970 at 4:00 p.m.
Macdonald Hotel
Edmonton, Alberta

INDEX

FINANCIAL HIGHLIGHTS

	1970	1969	1968
Total Revenue	$14,046,706	$ 8,034,144	$6,479,948
Net Income (note 1)	$ 1,227,115	$ 869,424	$ 487,646
Net Return (note 2)	8.7%	8.5%	7.6%
Net Income per Common Share			
Before extraordinary income	60.5c	38.8c	28.0c
Extraordinary income	———	11.2c	———
Net Income	60.5c	50.0c	28.0c
Shareholders Equity	$ 7,228,996	$ 3,118,333	$2,438,828
Per Common Share	$3.34	$1.79	$1.40
Total Assets	$15,918,423	$10,298,610	$4,677,584
Shares outstanding (note 3)	2,027,010	1,740,000	1,740,000
Working Capital	$ 1,370,243	$ 1,085,560	$ 53,022

Note 1 – including extraordinary income

Note 2 – excluding extraordinary income

Note 3 – weighted average shares outstanding for the year. Shares outstanding in 1968 and 1969 are adjusted for the 3 for 1 stock split of November 1969 and all per share figures are adjusted accordingly.

OPERATIONAL HIGHLIGHTS

– Over 99% of the $3,000,000 7% Convertible Sinking Fund Debentures, Series A were converted to common shares

– Issued $2,000,000 9½% Secured Debentures, Series B

– Constructed and launched six new barges and one new tug

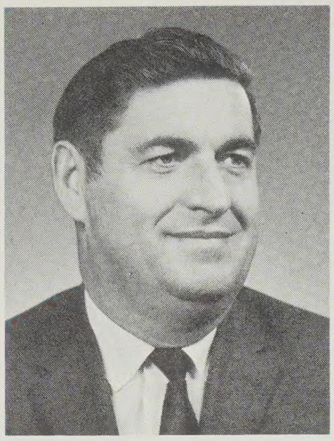
– Established a marine facility at Hay River, N.W.T.

– Established a marine and ground transportation base in Inuvik, N.W.T.

– Purchased the remaining one-third of Norcan Parts & Equipment (1965) Ltd.

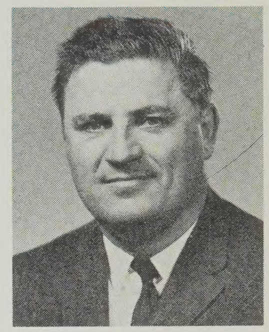
– Purchased Dales Holdings Ltd.

– Had a license to operate a marine fleet on the Mackenzie River Watershed granted.

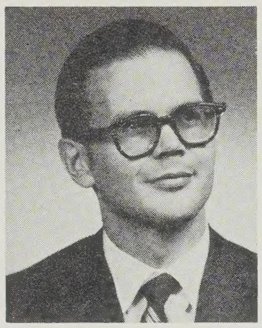


MR.
REINHOLD KAPCHINSKY
President, Director and Chief Executive Officer.

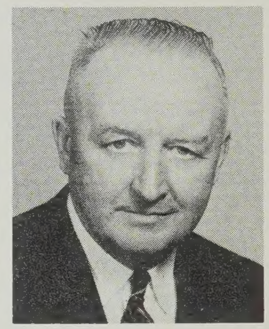
MR. HELMUT KAPCHINSKY
Director and Vice-President, Operations Special Projects and Sales.



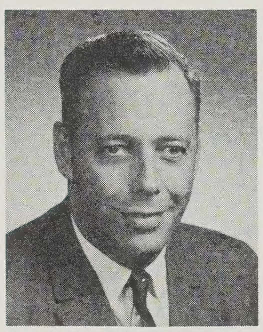
MR. GERHARD KAPCHINSKY
Director and Vice-President, British Columbia Operations



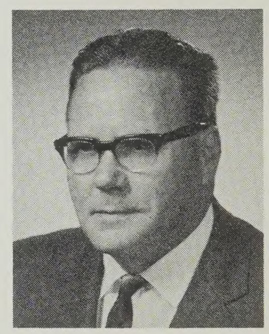
MR. MARVIN W. PHILLIPS
Secretary and Treasurer



MR. JOSEPH SPIKER
Vice-President, Alaska Operations and Al Renk & Sons, Inc.



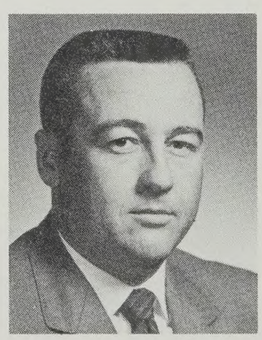
MR. LEONARD CARPENTIER
Vice-President, Alberta and Northwest Territories Operations



MR. WALTER HORTON
Vice President, Marine Operations and Maintenance.

MR. HARLAN KENNEDY
Vice-President and General Manager Norcan Parts & Equipment (1965) Ltd.

MR. REX W. DALES
Vice-President Gravel Operations and President R.R. Dales Construction Co. Ltd.



MR. JIM BRUCE
General Manager Pipeline Division

REPORT TO SHAREHOLDERS

This is the third report we have issued to our Shareholders since we became a public company in December of 1967. This year's profits increased substantially over last year's, and net return also showed a gain, which is most satisfying in view of present economic conditions.

The Company's revenue increased by 75% from $8,034,144 to $14,046,706; its net profit after tax has risen by 82% from $674,424, excluding unusual income of $195,000, to $1,227,115; through efficiencies instigated in the second half of the last fiscal year, and further improved this fiscal year, and through close attention to costs, management was able to increase the Company's net return after tax, on gross revenue from 8.5% to 8.7% notwithstanding the inflationary pressures that have caused many companies to show a reduction in net return; earnings per common share were 60.5c up from 38.8c per common share, excluding 11.2c per common share of extraordinary income; equity per common share nearly doubled, from $1.79 to $3.34.

We have reported before that certain parts of our past expansion have been directed towards levelling the earnings of your Company over the year. With the completion of the first year in which all these expansions contributed to earnings, it appears that our plan was successful, with quarterly earnings being as follows; First Quarter – $386,765; Second Quarter – $207,565; Third Quarter – $373,180; and Fourth Quarter – $259,605.

Your Company continues to maintain solid financial strength with equity of $7,228,996 and long-term debt of $3,004,961. To increase the Company's equity base, and to be in a position to finance the year's expansion, on February 16th, 1970 the $3,000,000 7% Sinking Fund Debenture, Series A was called for redemption. Due to the call, over 99% of the Debenture was converted to common shares.

A $2,000,000 9½% Secured Debenture, Series B, to which is attached warrants to purchase 40,000 common shares in your Company at $12.00 per common share, was then issued as a private placement in March of 1970. These funds were required to expand the Company's marine fleet.

A review of the events of the past year are included in the following pages, along with illustrative pictures.

Since the year-end Mackenzie Air Ltd., a wholly-owned subsidiary of your Company, and incorporated by your Company, was successful in having the main charter licenses of the former Keir Air Transport Ltd. transferred to its name. Due to financial problems of the former Keir Air Transport Ltd., Mackenzie Air Ltd. has also purchased the assets of that company to provide air services to Kaps Transport Ltd. and its customers. With the completion of these events, your Company is again involved in land, sea and air transportation.

Your Company's equipment has enjoyed its normal high utilization during the past year, and present indications are that this will continue. The results of this year's expansion of the marine fleet will not be fully reflected until the first quarter results. Contract commitments in the North have increased. At present it appears that next year will be as good as the past year, and with continued effort in cost control and efficiency we will be able to maintain the net margins.

There has been much written and said about the far Northern oil and gas exploration, and probable reserves, as well as the methods of transporting the oil and gas found, to markets. Your Company is watching these developments very carefully, so that as these developments proceed, we can maintain our position of being there, ready and able, to perform the services required when they are required. While we do not wish to express an opinion as to the timing of these developments, we do feel they will proceed, and if and when they do, we feel we will be ready for the necessary expansion and will be able to benefit from the work so created.

With an upswing in the country's economic growth and the resulting increase in exploration and development, as well as the base your company has developed, it is our feeling that your Company can look forward to continued prosperity.

We would like to take this opportunity to express our gratitude and appreciation to our Shareholders for their continued confidence and support; and to our employees for their continued devotion and efforts which have made this the most successful year in our history.

R. KAPCHINSKY
President and Chief Executive Officer

GROUND OPERATIONS:

Activity further North appears to be continuing to increase as anticipated, with a slow-down in the northern part of Alberta. To maintain our policy of moving with the activity, our Zama base, being of a portable nature, was moved to Inuvik in the Northwest Territories this summer.

As well as this far northern base, facilities have been expanded in Hay River.

Our fleet of trucks and earth moving equipment has been increased, and this portion of our business has maintained a good, steady growth.

Ground transportation in the North has its own unique problems, which to date, we have been able to solve. One of these problems was the movement of fuel. To make the movement of fuel in the North more economical, your company designed and built a special trailer, a picture of which is in this Report. This trailer has wheels and skis for use on snow and sand, and the design is such that the skis automatically take over when soft snow is encountered. Each unit carries four thousand gallons. A fuel hauling train consists of two fuel trailers, and a trailer for living quarters, all moved by a "D-8 cat." Two of these complete units are presently on contract.

Ground transportation volume has also increased as a favourable side effect of our water transport division. Much of the freight we move North by barge is first trucked from Edmonton to Hay River.

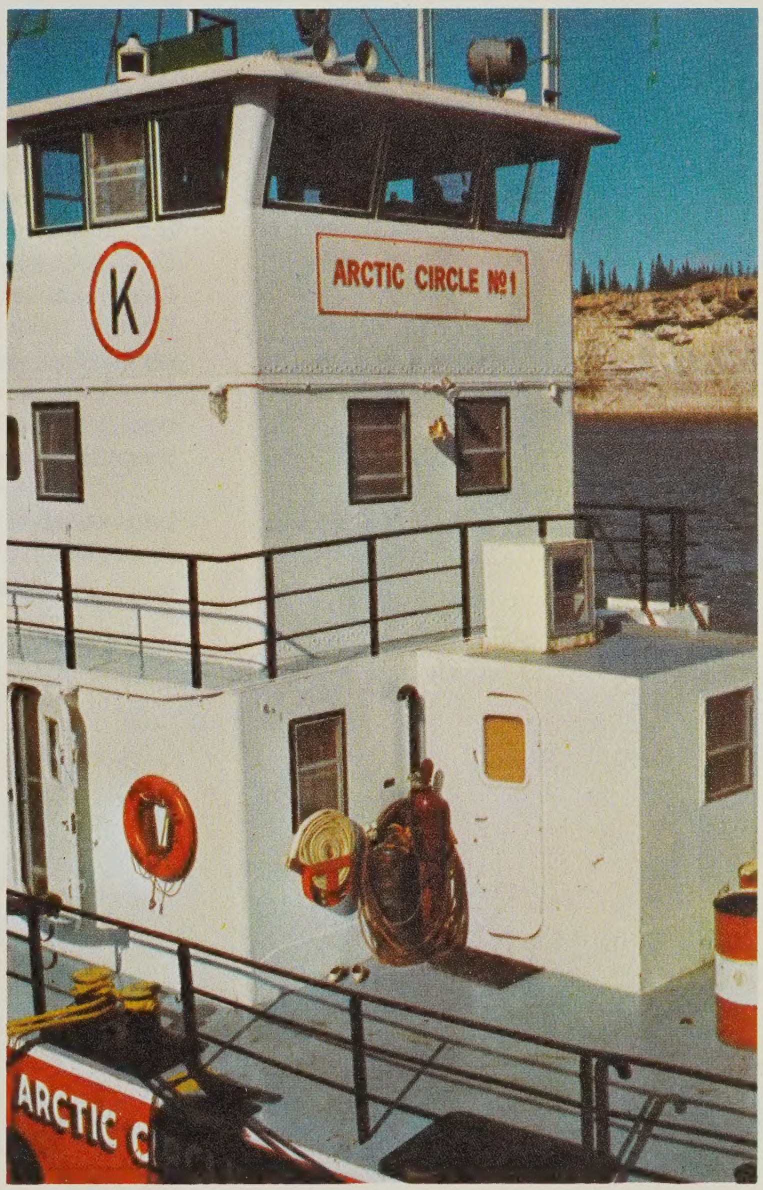
WATER OPERATIONS:

On the 4th day of January, 1970 the Water Transport Committee of the Canadian Transport Commission granted your Company a license to transport goods on the Mackenzie River Watershed, to any point which would be adjacent and/or accessible to exploration drilling sites, pipeline rights-of-way, building and construction sites, this would include the movement of goods on the Mackenzie and up other routes which would be navigable, such as the Liard and other rivers.

With this authority and because of the anticipated increase in freight movement in the North, your company constructed sufficient new marine equipment during the year to approximately triple the fleet's carrying capacity.

One tug, the W. H. HORTON, was constructed from a shallow-draft design similar to the ARCTIC CIRCLE NO. 1. It is smaller than the ARCTIC CIRCLE, which means it has better manoeuverability in the narrower, shallower tributaries of the Mackenzie, but still is very efficient on the Mackenzie itself.

Six barges were built, which will carry 1,150 tons each at six foot of draft. These six barges are 48 feet by 200 feet. These barges were fabricated in sections in Vancouver, and Winnipeg, and assembled in our Yard at Hay River. The supervision of the fabrication and assembly of the sections was handled by one of your company's subsidiaries. All six have the loadline approval of the American Bureau of Shipping, so that they may be used in American waters.



ALASKA OPERATIONS:

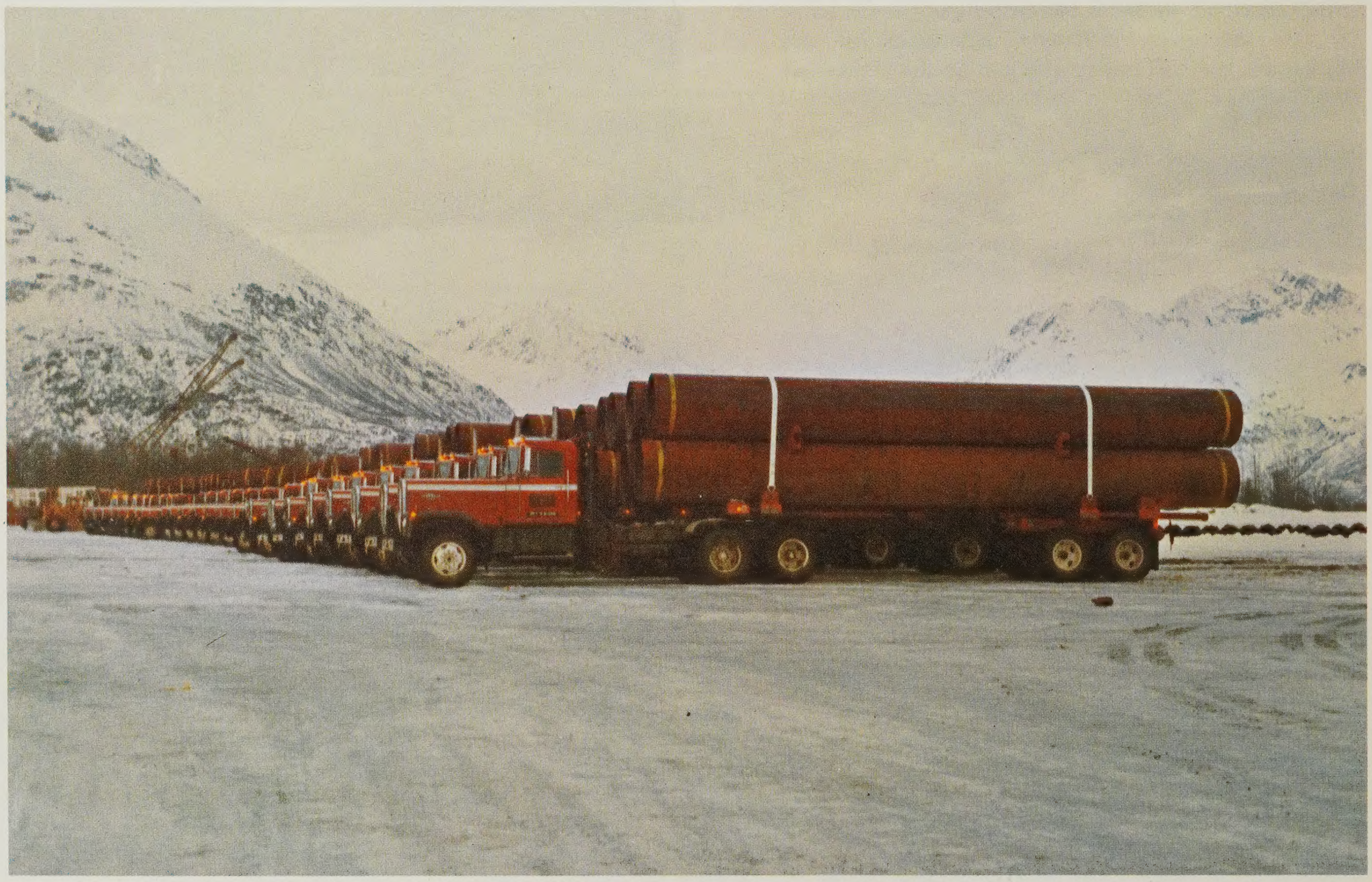
Your company now has three types of operations in the State of Alaska. They are Al Renk & Sons, Inc., pipe hauling, and unloading, and contract transportation service in the Prudhoe Bay area of the North Slope of Alaska.

Even with the general slow-down in Alaska, your company has kept busy and has had its contract on the North Slope renewed for another year.

The unloading of boatloads of pipe in Valdez is continuing and schedules indicate an increased number of boats arriving right into October of this year. Your company was also involved in the unloading of pipe from the railroad in Fairbanks, and the stockpiling of same. During the year Renk Pipeline Division transported some pipe by truck from Valdez to Fairbanks and they are continuing this movement.

The picture included in this Report is of thirty new trucks, that are being used for this haul, loaded with their first loads. It requires thirty-three of these truck loads to move one mile of this 48 inch pipe.

At present, the stockpile in Valdez consists of approximately three hundred and fifty miles of this pipe. Approximately eighty miles has been stockpiled in Fairbanks, and part of this eighty miles of pipe has been trucked by Renk - Pipeline Division from Valdez.



SUBSIDIARY OPERATIONS:

Your company just recently moved into pipelining and has completed its first contract.

In continuing your company's "package deal" concept, and because of the nature of Northern operations, we have moved into catering at Northern locations, where we already provide many of the other services required. Indications are that this new division has good future prospects.

R.R. Dales Construction Co. Ltd.'s contracted work is up from last year's, and all equipment will be utilized at good levels this season. To ensure future gravel supplies, and because of favourable financial effects, your company purchased Dales Holdings Ltd., whose assets consist of gravel properties in strategic locations, with estimated usable gravel reserves in excess of 16,000,000 tons.

Norcan Parts & Equipment (1965) Ltd. has shown excellent growth. To increase market coverage, a new location has been established in Spokane, Washington. We have also doubled the size of our Edmonton building to handle the present and expected increased volume. Your company also purchased the remaining one-third interest of this company, effective July 1st, 1969 to make this company a wholly-owned subsidiary.

With the company's rapid expansion in the past, we have continually out grown our offices, and presently operate out of a number of locations. To increase efficiency, and better cope with future expansion, it was decided to have a new office building constructed to consolidate administration and accounting.

The new office is nearing completion, and occupancy is expected in October of this year. It is designed to hold approximately forty employees at present, with provisions made for future expansion as it becomes necessary.

KAPS TRANSPORT LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED JUNE 30, 1970
(with comparative figures for 1969)

	1970	1969
Revenue	$14,046,706	$8,034,144
Direct operating expenses	9,361,745	5,651,975
Administrative expenses	1,297,517	596,144
Interest on long-term debt	173,292	67,480
Depreciation	789,145	447,628
	11,621,699	6,763,227
	2,425,007	1,270,917
Other income (expense)	(2,125)	105,311
Income before income taxes, minority interest and extraordinary item	2,422,882	1,376,228
Income taxes (note 7)	1,195,767	679,714
Income before minority interest and extraordinary item	1,227,115	696,514
Minority interest	—	22,090
Income before extraordinary item	1,227,115	674,424
Extraordinary item		
Gain on sale of investment in subsidiary	—	195,000
NET INCOME FOR THE YEAR	$ 1,227,115	$ 869,424
EARNINGS PER SHARE		
Income before extraordinary item	60.5c	38.8c
Net income for the year	60.5c	50.0c

KAPS TRANSPORT LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED JUNE 30, 1970
(with comparative figures for 1969)

	1970	1969
Balance at beginning of year	$1,455,057	$ 775,552
Net income for the year	1,227,115	869,424
	2,682,172	1,644,976
Dividends	200,652	174,000
Prior years' income tax reassessment	—	15,919
	200,652	189,919
BALANCE AT END OF YEAR	$2,481,520	$1,455,057

KAPS TRANSPORT LTD.
(Incorporated under the laws of Alberta)
and subsidiary companies

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	$ 321,159	$ 35,036
Term deposits	335,000	300,000
Accounts receivable	2,863,183	2,113,244
Inventories (note 2)	1,287,548	874,640
Prepaid expenses and deposits (note 3)	266,128	201,984
Principal due within one year on agreement receivable	170,000	180,000
	5,243,018	3,704,904
OTHER ASSETS		
Agreement receivable (note 4)	170,000	500,000
Less principal included in current assets	170,000	180,000
	–	320,000
Special refundable tax	–	17,715
	–	337,715
FIXED ASSETS (note 5)		
Land, buildings and equipment, at cost	10,758,801	6,195,988
Less accumulated depreciation	1,929,630	1,314,815
	8,829,171	4,881,173
INTANGIBLES AND DEFERRED CHARGES		
Debenture discount and issue expenses less amortization	28,000	125,252
Excess of cost over book value at dates of acquiring shares of subsidiaries	1,790,818	1,249,566
Other intangibles, at cost less amortization	27,416	–
	1,846,234	1,374,818
	$15,918,423	$10,298,610

Approved by the Board
R.A.N. Bonnycastle, Director
F.N. Hughes, Director

CONSOLIDATED BALANCE SHEET — JUNE 30, 1970
(with comparative figures at June 30, 1969)

LIABILITIES

	1970	1969
CURRENT LIABILITIES		
Bank advances (note 6)	$ 1,106,664	$ 433,190
Accounts payable and accrued liabilities	1,951,301	1,427,402
Income and other taxes payable	193,735	428,750
Principal due within one year on long-term debt	621,075	330,002
	3,872,775	2,619,344
LONG-TERM DEBT (note 6)		
9½% Secured debentures, Series B	2,000,000	–
7% Convertible sinking fund debentures, Series A	–	3,000,000
Bank loans	148,429	323,488
Finance contracts	887,107	86,408
Agreements payable	590,500	296,312
	3,626,036	3,706,208
Less principal included in current liabilites	621,075	330,002
	3,004,961	3,376,206
DEFERRED INCOME TAXES (note 7)	1,811,691	1,117,369
MINORITY INTEREST	–	67,358
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
4,000,000 Common shares without nominal or par value		
Issued		
2 ,164,515 Common shares	4,747,476	1,663,276
RETAINED EARNINGS	2,481,520	1,455,057
	7,228,996	3,118,333
	$15,918,423	$10,298,610

ESCROWED SHARES (note 9)
SHARE OPTIONS (note 10)
LONG-TERM LEASES (note 11)
CONTINGENT LIABILITIES (note 12)

KAPS TRANSPORT LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1970
(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Income before extraordinary item	$1,227,115	$ 674,424
Items not involving current funds		
Depreciation and amortization	798,019	447,628
Deferred income taxes	690,261	341,397
Minority interest	–	22,090
	2,715,395	1,485,539
Issue of 7% convertible sinking fund debentures, Series A	–	3,000,000
Issue of 9½% secured debentures, Series B	2,000,000	–
Increase in other long-term debt	616,455	259,253
Issue of common shares	3,204,000	–
Refund of special refundable tax	17,715	7,196
Reduction in agreement receivable	320,000	180,000
Working capital (deficiency) acquired on acquisition of subsidiary companies	(96,973)	581,381
	8,776,592	5,513,369
APPLICATION OF FUNDS		
Additions to fixed assets (net)	4,577,419	2,164,690
Loan to subsidiary company	–	125,000
Acquisition of subsidiary companies	655,000	1,875,970
Dividends	200,652	174,000
7% Convertible sinking fund debentures, Series A		
Converted	2,989,000	–
Redeemed	11,000	–
Debenture discount and issue expenses	30,000	125,252
Costs of other intangibles	28,838	–
Prior years' income tax reassessment	–	15,919
	8,491,909	4,480,831
INCREASE IN WORKING CAPITAL	284,683	1,032,538
WORKING CAPITAL AT BEGINNING OF YEAR	1,085,560	53,022
WORKING CAPITAL AT END OF YEAR	$1,370,243	$1,085,560

AUDITORS' REPORT

To the Shareholders of Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at June 30, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta,
September 4, 1970.

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

KAPS TRANSPORT LTD.
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1970

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Kaps Transport Ltd. and all its wholly owned subsidiary companies; Wizard Transport Ltd., Bolsters Transport Ltd., Alberta Equipment Centre Ltd., R.B.D. Earthmovers Ltd., R.R. Dales Construction Co. Ltd., Dales Holdings Ltd., Norcan Parts & Equipment (1965) Ltd., and Al Renk & Sons, Inc. During the current year Dales Holdings Ltd. and the remaining one-third minority interest in Norcan Parts & Equipment (1965) Ltd. were purchased.

2. INVENTORIES

	1970	1969
Parts and supplies, at cost which does not exceed market value	$ 590,736	$ 380,325
Automotive and heavy equipment, at lower of cost and net realizable value	696,812	494,315
	$1,287,548	$ 874,640

3. PREPAID EXPENSES AND DEPOSITS

	1970	1969
Prepaid expenses	$ 170,658	$ 86,434
Deposits on contracts	95,470	115,550
	$ 266,128	$ 201,984

4. AGREEMENT RECEIVABLE

The $170,000 balance under an agreement receivable arose from the sale in 1969 of all of the shares of Keir Air Transport Ltd. The purchasers are in default under this agreement as a payment due August 15, 1970 has not been received. Counsel has been retained to commence collection action. No provision has been made in the company's accounts as it appears at this time that no material loss will be incurred by the company.

5. FIXED ASSETS

	1970			1969
	Cost	Accumulated Depreciation	Net	Net
Land	$ 85,227	$ –	$ 85,227	$ 11,683
Buildings	241,603	42,003	199,600	149,003
Automotive equipment	5,651,200	1,250,408	4,400,792	2,976,349
Portable field equipment	666,197	158,875	507,322	160,040
Aircraft	409,499	53,981	355,518	98,438
Marine equipment	2,587,113	135,749	2,451,364	998,854
Leasehold improvements	28,411	13,319	15,092	4,352
Office and shop equipment	144,267	84,895	59,372	60,172
Aggregate equipment	831,796	170,381	661,415	422,282
Gravel pits	113,488	20,019	93,469	–
	$10,758,801	$1,929,630	$8,829,171	$4,881,173

Annual depreciation rates used by the company are:

(a) On a diminishing balance basis:

Buildings	
Concrete block	5%
Frame	10%
Office and shop equipment	20%

(b) On a straight line basis:

Automotive equipment and aggregate equipment	
Tracked equipment	10%
Gasoline powered units	20%
Diesel powered units	10%
Service vehicles	30%
Portable field equipment	20%
Aircraft	12.5%
Marine equipment	10%
Leasehold improvements - equal annual amounts over the life of the lease	

(c) On a production basis:

Gravel pits - annual production over estimated reserves

6. LONG-TERM DEBT

9½% Secured Debentures, Series B:

On March 1, 1970 the company issued secured debentures in the amount of $2,000,000 maturing March 1, 1975, bearing interest at 9½% per annum, secured by a first floating charge on all the assets. The debentures are redeemable, in whole or in part, at any time prior to maturity and carry warrants to purchase 40,000 common shares for $12 per share at any time up to the close of business on March 1, 1975.

Bank Loans:	1970	1969
8½% Loan, payable $2,160 per month principal and interest	$ -	$ 32,400
6¾% Loan, payable $4,147 per month principal and interest	-	44,265
7% Loan, payable $6,710 per month principal and interest	-	32,939
8% Loan, payable $7,820 per month principal and interest	96,762	178,884
8% Loan, payable $11,667 semi-annually on June 1 and December 1 with interest payable monthly	11,667	35,000
9½% Loan, payable $10,000 annually with interest payable monthly	40,000	-
	$148,429	$323,488

The above bank loans and the bank advances included in current liabilities are secured by a general assignment of book debts and chattel mortgages on certain fixed assets.

Finance Contracts:

These contracts are secured by the equipment pledged under the contracts and are payable as follows:

	1970	1969
Year ended June 30, 1970	$ -	$ 40,353
Year ended June 30, 1971	399,757	24,063
Year ended June 30, 1972	328,906	20,539
Year ended June 30, 1973	158,444	1,453
	$ 887,107	$ 86,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1970

6. LONG-TERM DEBT (cont'd)

Agreements Payable:	1970	1969
4% Agreement payable on the purchase of the shares of Al Renk & Sons, Inc., payable $75,000 U.S. on each of May 6, 1971 and 1972 and a final payment of $50,000 U.S. on May 6, 1973	$215,500	$296,312
3% Agreement payable on the purchase of the shares of Dales Holdings Ltd., payable $25,000 annually on July 20, 1970 to 1973 with a final payment of $275,000 on July 20, 1974	375,000	-
	$590,500	$296,312

7. INCOME TAXES

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming capital cost allowances in excess of depreciation recorded in the accounts. The accumulated total of such income tax deferments is reflected in the balance sheet as "Deferred income taxes".

8. CAPITAL STOCK

Authorized:

During the year the company changed its authorized share capital from 2,950 4% cumulative redeemable preferred shares of $100 par value and 1,000,000 common shares without nominal or par value to 4,000,000 common shares without nominal or par value by:

(a) Cancelling the 2,950 4% preferred shares
(b) Sub-dividing the 1,000,000 common shares without nominal or par value into 3,000,000 common shares without nominal or par value
(c) Creating an additional 1,000,000 common shares without nominal or par value

Retroactive effect has been given to the 3 for 1 share split in the accompanying financial statements and the notes thereto.

Issued:	1970		1969	
	Shares	Amount	Shares	Amount
Common shares issued at beginning of year	580,000	$1,663,276	580,000	$1,663,276
Share split, 3 for 1	1,160,000	-	-	-
	1,740,000	1,663,276	580,000	1,663,276
Issued on conversion of 7% convertible sinking fund debentures, Series A	403,515	2,869,200	-	-
Issued for common shares of subsidiary company, Norcan Parts & Equipment (1965) Ltd. (Note 1)	15,000	180,000	-	-
Issued for cash under stock option plan (note 10)	6,000	35,000	-	-
Common shares issued at end of year	2,164,515	$4,747,476	580,000	$1,663,276

9. ESCROWED SHARES

Of the total common shares outstanding 900,000 are subject to an escrow agreement dated October 4, 1967 between the principal shareholders; Reinhold, Gerhard and Helmut Kapchinsky, Richardson Securities of Canada, and the Royal Trust Company as Trustee, which provides that such shares may be released from escrow or transferred on the books of the company in five equal annual instalments commencing October 1, 1968. At June 30, 1970 360,000 shares have been released from escrow under the terms of this agreement.

10. SHARE OPTIONS

The company has a stock option plan under which options to purchase 60,000 common shares were granted to two senior officers of the company all at a price of $5.83 per common share. The options were granted for a five year period but are exercisable as to not more than 20% on a cumulative basis in each year by the optionee and exercisable only upon completion of the previous year's employment with the company. All options expire on December 31, 1973. During the current year 6,000 common shares were issued, options to purchase 24,000 common shares were cancelled and 30,000 common shares remain under option under the terms of this plan.

In addition to the warrants issued to debenture holders to purchase 40,000 shares of the company as explained in note 6, there are other outstanding warrants to purchase 120,000 common shares of the company at a price of $5.83 per share exercisable until December 31, 1974.

11. LONG-TERM LEASES

The company rents, from two of its directors, two buildings under long-term "net net" leases which expire August 31, 1977, the annual rents for which total $28,500. There are options to extend the leases for a further five years at the same annual rentals.

During the fiscal years ended June 30, 1969 and June 30, 1970 the company entered into rental purchase contracts on equipment with an annual rental of $126,608 for a period of five years with an option to purchase for the sum of $80,690 at the end of the contracts.

12. CONTINGENT LIABILITIES

At June 30, 1970 litigations in which the company was involved totalled approximately $380,000. No provision has been made in the accounts because approximately $255,000 will be covered by the company's insurers, and approximately $100,000 will be covered by an indemnification given to the company by certain of the company's shareholders. It is the opinion of the company's solicitors that the company will not incur any material losses as a result of these actions.

The company's past service contributions to its executive pension plan, made in the fiscal years 1965 and 1966, are presently being reviewed by the Department of National Revenue of Canada. No reassessment of income tax has been made. In the event a reassessment is issued by the Department the amount involved, though undeterminable at present, is estimated to be approximately $80,000.

13. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate direct remuneration paid or payable by the company to its directors and officers amounted to $102,200 for the year ended June 30, 1970 (1969 - $99,350).

Three of KAPS four tugs

M.V. Kap I
M.V. Kap III
W.H. Horton

AR10

KAPS TRANSPORT LTD.

and its subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

6 months ended December 31, 1970
(with comparative figures for 1969)
(unaudited)

	1970	1969
Funds Provided:		
From operations		
Net income	$ 467,978	$ 594,330
Non-cash items		
Add — depreciation	573,918	358,210
— deferred income tax	(269,005)	47,051
— minority interest in income	–	13,160
— amortization of debenture costs	3,000	4,051
— amortization of other intangibles	1,691	–
	777,582	1,016,802
Refunds on special refundable tax	–	6,433
Increase in common shares issued	2,176,665	1,074,000
	2,954,247	2,097,235
Funds applied:		
Reduction in long-term debt	451,634	960,489
Additions to fixed assets (net)	487,397	1,250,846
Dividends on common shares	109,176	92,927
Additional investment in subsidiary	500	–
	1,048,707	2,304,262
INCREASE (DECREASE) IN WORKING CAPITAL	1,905,540	(207,027)
WORKING CAPITAL, JUNE 30	1,370,243	1,085,560
WORKING CAPITAL, DECEMBER 31	$3,275,783	$ 878,533

File

KAPS

SECOND QUARTER REPORT
DECEMBER 31, 1970

MESSAGE FROM THE PRESIDENT

In the six months ended December 31st, 1970 revenues totaled $7,700,460 up from $6,421,672 during the comparable period last year. Net earnings declined to $467,978 from $594,330 or 21.3c per share compared to 27.1c per share, both based on 2,193,931 shares outstanding being the weighted average shares outstanding during the six month period.

Second quarter earnings were down from the first quarter of this year which is traditional, as it is during this quarter that your Company's operations shift from summer to winter operations, with a resulting short period of reduced revenues. Second quarter earnings were also down from the comparable period last year on revenues which were almost equal. Two major factors contributed to this. One factor was a slowdown in Alaska, which was greater than expected, due to the delay of the construction of pipelines from the North Slope. This has adversely affected the profits of all your company's operations in Alaska. Also, in order to maintain your Company's position of being able to provide its customers with needed services, when needed, which has been a major factor in our past success, certain continuing costs are incurred. It is felt that this position must be maintained as well as extended so that your Company will be in a position to benefit from expected increases in economic activity in the areas it operates in. This has caused these fixed costs to continue and in some areas, to increase.

Your company entered into a 50-50 joint venture agreement to study the feasibility of the building and use of off-shore drilling equipment in the Beaufort Sea. This agreement was entered into with J. Ray McDermott Arctic Ltd., a wholly owned Canadian subsidiary of J. Ray McDermott Co. Inc. As a result of these continuing studies of off-shore drilling equipment, the joint venture has contracted to construct a tug which will be ready for use during the coming season. This tug is designed to haul deck cargo, move conventional barges and move, service and set anchors for off-shore drilling barges.

Your company's subsidiary, Mackenzie Air Ltd., entered into the small jet charter business with the purchase of a ten passenger Gates Learjet Model 25. With this aircraft, your Company will be able to provide its customers with direct, comfortable, high altitude, high speed transportation to remote locations of Canada's North, where many of their operations are located.

During December of 1970 your Company successfully issued 225,000 common shares of the Company. The proceeds of this issue were for construction of additional marine equipment and working capital. This issue also increased the Company's equity base considerably, and strengthened its financial position for future borrowings.

Construction of the pipeline project in northern Alberta, reported in the First Quarter Report, commenced in December, and is progressing favourably and should be completed in April.

Edmonton, Alberta
February 15th, 1971

R. KAPCHINSKY
President and
Chief Executive Officer

KAPS TRANSPORT LTD.

and its subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

6 months ended December 31, 1970
(with comparative figures for 1969)
(unaudited)

	1970	1969
Revenue	$7,700,460	$6,421,672
Expenses:		
Direct operating	5,532,613	4,219,771
General and administrative	559,491	445,679
Provision for depreciation	573,918	358,210
Interest on long-term debt	103,585	114,027
	6,769,607	5,137,687
Operating profit	930,853	1,283,985
Other income	10,038	(7,119)
Income before income taxes	940,891	1,276,866
Provision for income taxes	472,913	669,376
	467,978	607,490
Minority interest in income	–	13,160
Net Income For The Period	$ 467,978	$ 594,330
Earnings per share based on 2,193,931 shares outstanding	21.3c	27.1c